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STATE FOR NEA/ELA, NEA/RA, AND EB/IDF
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SUBJECT: EGYPT: MONTHLY ECONOMIC REPORT

SUMMARY

[11](#). (U) IN THIS EDITION: Ramadan begins, and consumer prices rise. Egypt's credit rating remains unchanged, but interest rates for farmers decrease. The Ministry of Investment drafts changes to the investment law, as on-line trading and a new stock index are launched. Egypt's Minister of Environment discusses the Clean Development Mechanism in Saudi Arabia and Pugwash chooses Egypt to host its next conference. Orascom negotiates to take over Hutchinson Telecoms, while Vodafone and Etisalat announce intentions to bid for the international voice gateway license. Mobinil disputes third generation technology with the National Telecommunications Regulatory Agency, Swedish and Chinese firms are selected to construct the third mobile phone network and ARINC is awarded the contract for IT systems at the new Terminal 3 at Cairo International Airport. ExxonMobil announces investment in improved downstream services, while the GOE and Saudi Arabia discuss integrating electrical grids. Suez Canal revenues reach record levels. End summary.

MACROECONOMIC

[12](#). (U) INFLATION: Consumer prices rose across the scale with the start of Ramadan on September 23. Prices of fruits and vegetables and various Ramadan staples (lentils, dates, dried fruits and nuts and poultry) increased 20-30 percent since the start of the fasting month. Despite the August decision to lift the poultry import ban, widely seen as a GOE effort to avert Ramadan shortages, consumer poultry prices rose nearly 60 percent. Further reporting on inflation will be sent septel.

[13](#). (U) CREDIT RATING: In early September, Moody's maintained Egypt's Baa3 local currency government bond rating with a negative outlook in local currency and Ba1 with a stable outlook in foreign currency. The Baa3 local currency bond rating reflects Egypt's ample maneuverability in managing its domestic debt, as most debt is non-marketable and held by various public sector entities, according to Moody's. While fiscal transparency improved, GOE finances continue to deteriorate, causing a negative outlook for local currency government bonds. The stable outlook on Egypt's foreign currency Ba1 debt ratings reflects Egypt's low debt service burden (particularly on bond debt) and strong liquidity position. These characteristics, coupled with external financial assistance, account for the stability of the bond ratings in spite of policy slippage and exogenous shocks.

[14](#). (U) AGRICULTURE AND INTEREST RATES: In mid September, Minister

of Agriculture Amin Abaza announced a reduction in the interest rate on farmers' loans from the Principal Bank for Development and Agricultural Credit. Interest rates were lowered from 7.5 to 5.5 percent, in order to increase farmers' access to credit and encourage borrowing for new equipment and modern irrigation methods, in hopes of improving agricultural productivity.

LEGISLATION

15. (U) INVESTMENT LAW: The Ministry of Investment (MOI) plans to amend Investment Law No. 8 of 1997 to allow discounting, whereby special purpose financial vehicles are used to purchase debts owed to companies at a discount and assume responsibility for collecting them. Discounting, used in many countries, increases liquidity and the ability of investors to finance production needs. A number of Egyptian banks already provide discounting services but MOI expects the practice to increase after the amendments are finalized. MOI is also planning to reduce the minimum required capital for establishing sole proprietorships and corporations.

CAPITAL MARKETS

16. (U) ONLINE TRADING: Al-Arabia Online and EFG-Hermes received licenses from the Cairo and Alexandria Stock Exchange (CASE) and the Misr Clearing and Settlement House to begin provide online trading services. Egypt for Information Dissemination (EID) is developing the CASE's online trading infrastructure. EID is a joint venture between the CASE and OMX, a Swedish trading technology corporation that owns and operates six bourses in northern Europe.

17. (U) NEW STOCK MARKET INDEX: Dow Jones Indexes has teamed up with CASE to launch the Dow Jones CASE Egypt Titans 20 Index. This blue-chip index measures the performance of the CASE by following the transparent and objective methodology of the Dow Jones Global Titans 50 Index. It also includes 20 leading Egyptian stocks ranked by free-float market capitalization, sales/revenue and net income. The Dow Jones CASE Egypt Titans 20 Index is designed to underlie investment products such as mutual funds, exchange-traded funds and other financial products that enable investors to participate in the performance of the Egyptian stock market. The top five companies in the index by free-float market capitalization are: Orascom Telecom Holding, Orascom Construction Industries, EFG Hermes Holding, Egyptian Kuwaiti Holding and Commercial International Bank.

ENVIRONMENT

18. (U) KYOTO PROTOCOL: In late September 19-21, El-Sayed Mansour, Head of the Climate Change Unit at the Egyptian Environmental Affairs Agency (EEAA) gave a presentation on Egypt's experiences with the Kyoto Protocol's Clean Development Mechanism (CDM) at a conference in Saudi Arabia. The conference provided participants with a conceptual understanding of the financial and economic development benefits of the CDM. Mansour discussed EEAA's regulations, the CDM project evaluation process, projects underway in Egypt and EEAA's "green index" that allocates a percentage of income from Certified Emission Reductions CERs to an Environmental Protection Fund.

19. (U) PUGWASH: In late September the international scientific organization Pugwash (<http://www.pugwash.org/>) announced that Egypt would be the first country in the Middle East to host its next conference on science and world affairs in November. The Egyptian Council of Foreign Affairs will assist Pugwash in organizing the two-day event, scheduled at November 11 and 12. Issues discussed at the conference will include nuclear non-proliferation, efforts to render the Middle East a nuclear weapon-free zone and the possibility of establishing a regional security system. Attendees will also focus on the latest political developments in the Palestinian territories, Iraq and Lebanon, fighting terror, and promoting cultural dialogue.

TELECOMMUNICATIONS AND IT

¶10. (U) In late September, the press reported that Orascom Telecom was discussing take over of the Hong Kong-based cooperation Hutchison Telecom. Naguib Sawiris, Orascom CEO, told reporters that negotiations had reached an advanced stage, although no agreement was reached on price. In December 2005 Orascom paid \$1.3 billion for a 19.3% stake in Hutchison Telecom Media, a member of the Hutchison Whampoa Group. The press also reported that the deal will be structured to ensure that Orascom's indirect holdings in the Israeli cellular company Partner Communications do not exceed 10 percent.

¶11. (U) On September 19, Vodafone Egypt announced it would bid for one of two international gateway operators' licenses offered by the National Telecommunication Regulatory Authority (NTRA). The announcement came days after Vodafone's acquisition of 51 percent of Raya Telecom for LE 104 million. Embassy contacts believe Vodafone's acquisition of Raya puts the company in a better technical and legal position to pursue the license. Mohammed Omran, Chairman of Etisalat, winner of the third mobile phone license, also announced his company's intention to apply for one of the two licenses. Egypt has already passed the December 2005 deadline to fulfill its WTO obligation to end Telecom Egypt's (TE) monopoly on international calling operations. TE collected LE 2.3 billion in international calling revenues in 2005, accounting for 27 percent of its total revenues of LE 8.5 billion. In late September TE also announced it would increase its stake in Vodafone Egypt to 24.4 percent. Akeel Basher, TE Chairman, said that TE had obtained loans of LE 4 billion to finance the transaction, which will be concluded by the end of the current month.

¶12. (U) A dispute erupted in early September between NTRA and Mobinil, when the latter commercially introduced Enhanced Data for GSM Evolution (EDGE) technology without a license. EDGE allows users to transfer data at six times the speed of GPRS. NTRA classifies the technology as third generation, which requires an NTRA license that costs LE 3.3 billion. Mobinil argues that the technology is second generation, citing the GSM Association, an international support body. Second generation technology does not require an additional license for Mobinil. Mobinil agreed to suspend EDGE services until the dispute is resolved.

¶13. (U) In early September the Swedish firm Erickson and the Chinese Huawei Technologies won contracts from Etisalat to construct Egypt's third mobile network, for a total of 800 million UAE Dirham (almost \$218 million). Erickson will build in Cairo and Alexandria while Huawei will build in more remote areas including Sharm el Sheikh and Hurgada. The new mobile company is expected to start experimental operations by year-end and formal operations in February 2007. The NTRA license requires coverage in the 4 cities mentioned above within six months.

¶14. (U) (U) AIRPORT IT: In mid September ARINC Incorporated was selected to provide passenger check-in systems and related technologies for the new Cairo International Airport Terminal 3, a \$400 million project partially financed by the World Bank (WB). ARINC was chosen through a competitive tender process under WB procurement rules. The IT portion of the project is valued at \$22 million. ARINC will provide the Cairo Airport Company with extensive design, project management, supply management, installation, and commissioning for 14 IT systems, from passenger check-ins and displays to biometric gates and ramp control. Terminal 3 is scheduled to open in early 2008.

ENERGY

¶15. (U) OIL: During the last week of September, Tom Walters, the general Manager of ExxonMobil in Egypt announced a new investment plan for in Egypt worth \$100 million. Under the plan, 70 percent of the investment will be directed to the Greater Cairo Area and the remaining 30 percent in Alexandria and Upper Egypt. ExxonMobil plans to improve downstream services at gas stations, increase the number of natural gas stations, and expand ExxonMobil's successful "On the Run" shops at service stations in Egypt. Also in late September, the British oil company, Aminex PLC signed a production sharing agreement with the GOE to oilfields in the West Esh El Mellahah area in Upper Egypt.

¶16. (U) ELECTRICITY: On Sept. 27, Egypt and Saudi Arabia signed a contract to study the possibility of connecting their electrical grids. Hassan Younis, Minister of Electricity and Energy said the study would cost \$2.6 million, and that the contract demonstrated political will to link the grids. Press reports indicate that between 1990 and 2003, electricity consumption in the region increased from 214 to 471 kilowatt hours, a rise of 120 percent. In comparison, Japan saw a 23 percent rise and the U.S. a 29 percent increase during the same period.

TRANSPORTATION

¶17. (U) SUEZ CANAL According to Ahmed Ali Fadel, Chairman of the Suez Canal Authority, tolls will hit a record \$3.65 billion by

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year-end. Fadel told econoff that tolls for the third quarter of 2006 would exceed the previous quarter and reach \$960 million. Fadel also noted that a Danish ship, the largest container ship in the world, crossed the Suez Canal on September 22, after 17-hour sailing in the waterway. The ship is almost 400 meters long and 56.5 meters wide, and can carry 15,000 containers. The passing fee for ship was \$653,421.

ECONOMIC INDICATORS

¶18. (U)

Exchange Rate:

	(08/31/06)	(09/28/06)		
Egyptian Pounds/\$	Buying	Selling	Buying	Selling
Avg. Bank/Bureau Rate		573.76	575.84	573.17 575.00

Capital Market:

	(08/31/06)	(09/28/06)	
CASE 30 Index		5,674	6,427(09/27)
Hermes Financial Index		50,025	57,059
EFG Index	25,509	29,014	

Interest Rates:

(percent, monthly comparison)

Interbank Overnight	8.1	8.9(09/27)
T-bills (182 days)	8.99(08/01)	9.55
T-Bond (maturing 12/08)	9.25(07/25)	no trade
T-Bond (maturing 10/11)	9.1	10.3(09/27)

Foreign Reserves:

(US \$ billion, official gov't figures)

(08/2006)	(09/2006)
23,051.1	24,064.9

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